

**DOCKET SECTION**

**BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001**

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POSTAL RATE AND FEE CHANGES, 1997 )  
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Docket No. R97-1

**REBUTTAL TESTIMONY  
OF  
GUY WENDLER  
ON BEHALF OF  
AMERICAN BUSINESS PRESS**

David R. Straus  
Thompson Coburn  
700 14<sup>th</sup> Street, N.W.  
Suite 900  
Washington, D.C.  
202-508-1000 (office)  
202-508-1010 (facsimile)

Attorney for American Business Press

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**REBUTTAL TESTIMONY OF GUY WENDLER  
ON BEHALF OF AMERICAN BUSINESS PRESS**

1           My name is Guy Wendler, and I am the President of Stamats Communications  
2 in Cedar Rapids, Iowa. Stamats publishes two business-to-business periodicals that are  
3 members of the American Business Press: Buildings, with a circulation of 56,640 and  
4 Meetings in the West, with a circulation of 20,055. In addition, Stamats provides  
5 research, consulting and marketing communications services to institutions of higher  
6 learning, produces award-winning special interest video programming for public  
7 television, and publishes three periodical newsletters for the higher education market  
8 and two annual directories of meeting facilities and residential real estate firms.

9  
10           I am testifying for the limited purpose of rebutting United Parcel Service  
11 witness Stephen Henderson, who proposes that Periodicals rates be increased by 25%.  
12 Needless to say, an average increase of this magnitude, with some individual increases  
13 still larger, would have a severely adverse impact on periodical mailers.

15 I would like to start with a bit of history and background. Because of the threat  
16 that the reclassification case posed to publishers of small-circulation magazines such as  
17 those we produce, I testified on behalf of ABP in that proceeding. There, as I recall, the  
18 Postal Service had proposed rate increases averaging 17% for smaller circulation  
19 publications, and such increases would have been devastating. Fortunately in my  
20 opinion, the Commission rejected the proposed changes, but it did adjust rates in a  
21 way that produced much more modest but still significant increases for most  
22 periodicals that cannot be presorted to carrier route (which is most periodicals).

23  
24 In the aftermath of that mid-1996 increase, we at Stamats were relieved at the  
25 first news that the Postal Service's proposal in this case would raise regular rate  
26 Periodicals postage an average of less than 4%, in line with the increases for most other  
27 subclasses of mail. Our relief was soon tempered by the analyses we received that  
28 showed that the claimed costs of processing periodicals continued to rise rapidly, and  
29 that the modest increase proposed was possible only because the Postal Service had  
30 selected a low markup over attributable costs for periodicals. Our concern deepened  
31 still further when we learned that the Postal Service in this case is proposing to change  
32 the way it distributes mail processing costs to subclasses of mail in a way that  
33 increases the cost responsibility of Periodicals.

34  
35 Although I am certainly not an expert on postal ratemaking, I do know that this  
36 change in methodology, combined with the supposedly skyrocketing costs of handling  
37 periodicals, caused a great deal of concern within the publishing industry, leading to its

1   unprecedented unity in this case. I also know that there was a special concern among  
2   the industry's experts that if only a portion of the Postal Service's new method were to  
3   be adopted by the Commission, a much larger increase than the 3.5% proposed would  
4   be possible, especially if the relatively low markup proposed by the Postal Service were  
5   to be increased.

6  
7       I must admit, however, that, even though I was warned, I viewed that outcome  
8   as theoretically possible but probably not a real threat from a practical standpoint,  
9   because no one, I believed, would seriously suggest that Periodical rates should increase  
10  20% or more.

11  
12       I now realize that the threat is far more real than I imagined, for United Parcel  
13  Service witness Henderson, supported by the testimony of other UPS witnesses,  
14  proposes that Periodicals rates be increased by more than 25%. Although I would hope  
15  that an increase of this magnitude would be viewed by the Commission as totally out  
16  of line, the UPS proposal is one that we must take seriously.

17  
18       Fortunately, when it is carefully considered, witness Henderson's proposal is  
19  revealed as an unsupported appendage to the transparently self-serving effort of UPS to  
20  obtain large rate increases for those types of mail with which it competes. Periodicals  
21  are just the innocent bystanders.

1 I understand that the UPS approach is to do exactly as we feared—accept only  
2 the portion of the Postal Service’s new methodology that hurts periodicals, which raises  
3 the costs for which periodicals are directly responsible, and then assign the same cost  
4 markups as the Commission used in the 1994 case, on the theory that there is no  
5 reason to use any other markups. Witnesses for ABP and the other publishers have  
6 submitted direct testimony on the cost methodology issues, and I understand that  
7 there will be expert rebuttal testimony on these issues as well. I would like to address  
8 the second point, the cost markup, especially because Mr. Henderson seems to have  
9 ignored the statutory obligation of the Commission to consider the impact of increased  
10 rates on mailers.

11  
12 As I understand his testimony on this issue, Henderson did not perform an  
13 independent analysis of impact or any of the other statutory criteria. Rather, as he  
14 explains at page 8 of his testimony, he concluded that because Postal Service witness  
15 O’Hara “does not indicate any change in circumstances since Docket No. R94-1 that  
16 would require a change in the previously approved markup relationships,” the  
17 previously approved markups should be used.

18  
19 Mr. Henderson thus implies that even the Postal Service agrees that the  
20 markup for periodicals in this case should be the same as in the 1994 case, but the best  
21 evidence of the Postal Service’s analysis of all of the present circumstances is the actual  
22 markups it has proposed. In this regard, the Postal Service has, to its credit, recognized  
23 that the situation of periodicals is different from the situation of 1994. It has reacted

1 to the fact that costs purportedly continue to rise sharply in the face of additional  
2 mailer worksharing and has considered the 1996 rate increases resulting from  
3 reclassification, and it has proposed a markup reduction to 7%. It is obvious, therefore,  
4 that the Postal Service has in fact perceived a change warranting, in Mr. Henderson's  
5 words, "a major revision in markup relationships."

6  
7 The Postal Service has recognized what Mr. Henderson has not, which is that  
8 one cannot possibly separate the impact and fairness criteria, at least, from the specific  
9 rate increases at issue. That is, in its R94-1 decision, the Postal Rate Commission  
10 believed that a 16% markup for periodicals producing a 13.9% rate increase was  
11 appropriate in 1994 in the context of an average double-digit increase for all classes and  
12 following four years of rate stability. It is wrong to conclude without any analysis that  
13 a 25% periodicals increase in the context of a 3.5% average increase, with most  
14 periodical rates having increased less than two years ago, and with four more years of  
15 very large reported cost increases, represents the same factual situation justifying the  
16 same cost coverage. Such an increase, I submit, would not be fair and equitable and  
17 would not take into consideration the impact on publishers, as required by the Postal  
18 Reorganization Act.

19  
20 Let me be a bit more specific, using Buildings magazine as an example. The rate  
21 adjustments in 1996, in what was a "revenue neutral" case, raised our postage bill  
22 about 3%. I understand that other ABP members, especially those who cannot obtain  
23 barcode discounts, suffered even greater increases. The 25% increase proposed by

1 United Parcel Service here would mean that our costs would have increased by 29% in  
2 two years, after having increased by 13% in 1995. That large an increase in a major  
3 cost like postage would be terrible for our company, and I'm sure many others. In the  
4 face of these facts, one cannot and should not do what Mr. Henderson has done, which  
5 is simply to apply 1994 markups and claim to comply with the ratemaking criteria of  
6 the Postal Reorganization Act.

7  
8 The Postal Rate Commission's Recommended Decision in the reclassification  
9 case considered the adverse impact of the proposed 17% increase to be an important  
10 factor in rejecting that result (for example at paragraphs 5134 and 5201), just as it  
11 there questioned the "troublesome cost increases in second class." Paragraph 5137.  
12 Irrespective of what action the Commission takes on the cost methodology issues  
13 being addressed by the technical witnesses, these same factors argue for a cost coverage  
14 here much lower than that recommended in 1994. Mr. Henderson is wrong.